WASHINGTON STATE DEPARTMENT OF FINANCIAL INSTITUTIONS

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FOR IMMEDIATE RELEASE:

DFI RELEASES PAYDAY LENDING REPORT
Short-term, High Interest Loan Business Experiences Significant Growth

OLYMPIA – The payday lending industry in Washington State grew 84% over the past three years to over $1 billion in payday loans in 2003, according to a report released today by the Department of Financial Institutions (DFI). The report provides information on how frequently consumers borrow from payday lenders and presents a cost comparison between payday loans and other types of credit products. The study includes data from four large payday lenders and represents approximately 55% of the payday lending volume in 2003.

Payday loan companies offer short-term loans*. In Washington, a payday lender can charge a maximum fee of $15 per $100 on the first $500 borrowed, and $10 per $100 for loan amounts over $500. The maximum payday loan amount permitted by law is $700, and the maximum term is 45 days. However, the shorter the time period for which the loan is made, the higher the actual annual percentage rate (APR). For example, the maximum fee permitted on a $300 payday loan is $45. A 45-day, $300 payday loan with a $45 fee has a 121.67% APR, whereas the same $300 loan made for a 14-day term and a $45 fee is has a 391% APR. If the $300 loan were made for a 5-day term and a $45 fee, the APR would be 1095%. As a whole, the industry collected over $76 million in fees in 2003. Of the four lenders included in the report, all charged consumers the maximum fee allowed despite varying loan amounts and loan terms.

The report also measures the borrowing frequency of consumers. A total of 194,100 consumers took out loans from the four payday lenders included in the report in 2003. DFI found that out of the 194,100 borrowers, almost 50% of them used the service two to nine times per year and that

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nearly 10% took out payday loans 20 or more times in 2003 – challenging industry claims that payday loans are used primarily for short-term cash needs. In 2003, nearly three million payday loans were made to Washington consumers – a number that translates to one and a half loans for every state resident 16 years and older.

The purpose of the report is to provide an overview of the industry for policy makers. In order to assess the effectiveness of our current laws and make recommendations on consumer protection, DFI needed more information about the industry and how it impacts Washington consumers. This is the first attempt to capture detailed information about this business that impacts a growing segment of the population. Copies of the study are available on the Department's website: www.dfi.wa.gov.

***How payday loans work**

Payday loan companies offer, small, short-term, high interest, loans generally secured by a posted-dated check. The consumer's post-dated check is written for the advance amount, plus a fee. The check is held for the loan period by the lender and either deposited or the customer returns with cash to reclaim the check. In Washington, the maximum payday loan amount permitted by law is $700, and the maximum term is 45 days.

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